Answers

Note: *The ACCA does not require candidates to quote section numbers or other statutory or case references as part of their answers. Where such references are shown below [in square brackets] they are given for information purposes only.*

Marks

1 Ms Suliaman

(a) Normal tax liability

	R	R	Marks
Cash salary R4,000 x 9 months		36,000	1
Commission earned (sum of given figures)		99,000	1
Entertainment allowance R2,000 x 9 months		18,000	½
Entertainment expenses		(8,000)	½
Tutorial note: *The entertainment expenses may be claimed [in terms of s.11(a)] as the deductions for Ms Suliaman are not restricted by virtue of more income being derived from commission than salary [see s.23(m)].*			
Award of Mauritius trip (included as arises by virtue of service rendered)		40,000	½
Medical aid contributions by company R3,300/2 x 9 months		14,850	1
Interest free loan R100,000 x 8% (official rate) x 152/366 (leap year)		3,322	1
Tutorial note: *While days is the appropriate apportionment, months would also be accepted, yielding R3,333 in this instance.*			
Company car R199,000 x 3·25% x 9 months	58,208		1
Reduced by general business reduction:			
23,000 kms/30,000 kms x R58,208 (above)	(44,626)		1
Reduced further by payment of private fuel:			
7,000 kms x 77·7 cents per kilometre	(5,439)	8,143	1
Investment income			
South African dividends received	9,000		½
South African dividend exemption	(9,000)	0	½
Foreign dividends	7,000		½
Foreign interest	14,000		½
Interest exemption (first R3,700 only) [s.10(1)(i)(xv)]	(3,700)	17,300	1
South African interest	25,000		½
South African interest exemption (limited to remaining exemption:			
R22,800 – R3,700 (used above))	(19,100)	5,900	1
		234,515	
Contribution to provident fund (no deduction permitted)		0	½
Contribution to retirement annuity fund:			
Actual – 10% x R36,000 = R3,600 limited to greater of:			½
R1,750; or			½
R3,500; or			½
15% x (R234,515 – R36,000) (being 15% of non-retirement funding income) = R29,777		(3,600)	1
		230,915	
Less donation deduction: Actual R2,000 limited to 10% of taxable income before this and the medical deduction			
10% x R230,915 = R23,092. Therefore limited to actual		(2,000)	1
		228,915	
Less medical deduction:			
Employee contributions R3,300/2 x 9 months + R3,300 x 3	24,750		1
Company contributions deemed the employee's	14,850		½
	39,600		
Less monetary limits: R720 x 2 x 12 months	(17,280)	(17,280)	1
		211,635	
Disallowed contributions (R39,600 – R17,280)	22,320		1
Add other qualifying medical expenses:			
Costs incurred by Ms Suliaman for her mother	100,000		½
Qualifying medical costs	122,320		
Reduced by 7·5% x R211,635	(15,873)	(106,447)	1
Taxable income		105,188	

		R	Marks
Tax per the tables – R105,188 x 18%		18,934	½
Less rebate (primary only as less than 65 years of age)		(10,755)	½
Total normal tax		8,179	
Less employees tax		(28,334)	½
Less provisional tax		(1,000)	½
Refund due to Ms Suliaman		21,155	
			24

(b)

	R	R	Marks
Travel allowance R3,000 x 9 months		27,000	½
Business kilometres for both options is 23,000.			½
Option 1: Actual costs			
Wear & tear R199,000/7 years x 9/12 months	21,321		1
Fuel (all private – no deemed business expense [s.8(1)(b)(i)]	0		½
No maintenance costs			
Total costs	21,321		
Reduction R21,321 x 23,000 kms/30,000 kms	16,346		1
Option 2: Deemed costs			
Fixed cost per km: R66,440/30,000 kms x 274/366 days	165·80 cents		1½
No fuel or maintenance reduction as not paid by employee			
Reduction: R1·658 x 23,000 kms	38,134		½
Best reduction is therefore option 2 limited to the allowance		(27,000)	½
Inclusion in taxable income		0	
			6
			30

2 Ice Cube (Pty) Ltd

(a) The Value-Added Tax Act permits the separate registration of enterprises, branches or divisions [in terms of s.50 of that Act].

In order for the divisions of Ice Cube (Pty) Ltd to be separately registered, the divisions must be:

(i) separately identifiable in terms of the nature of the activities carried on, or by location; and 1
(ii) such division must maintain an independent system of accounting. 1

Both apply in the case of Division A and Division B.

The application for such registration must be made to the Commissioner in writing. 1

The divisions are then considered separate persons for the purposes of the Value-Added Tax Act and so registered. 1

An additional requirement is that the enterprise, Ice Cube (Pty) Ltd, must maintain its VAT registration, even if it now has no taxable supplies (the taxable supplies now being considered in the VAT returns of the separate divisions). 1

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Tutorial notes:

1. *While the phrase 'independent system of accounting' is not defined, it is submitted that recording entries to a general ledger for the division would be sufficiently 'separate' and that financial statements for the divisions are not required.*
2. *The turnover requirements for general VAT registration are not considered for the purposes of separate division registration as the enterprise would have to first be a vendor before such separate registration can take place.*

		R	R	Marks
(b)	Income tax effects			
(i)	**New administration building**			
	Commercial building allowance only applies to the portion not used or R&D activities			
	R13,000,000 x 80% (use) x 5% [s.13*quin*]		(520,000)	1
	R&D portion of commercial building use			
	R13,000,000 x 20% x 20% (final year of allowance) [s.11D(2)]		(520,000)	1
	Total allowances claimed on the building		1,040,000	
	Tutorial note: *Neither allowance is apportioned.*			
(ii)	**Old manufacturing building (disposal)**			
	Current year allowance (used for part of the year)			
	R6,000,000 x 5% [s.13(1)]		(300,000)	½
	Recoupment determination: [s.8(4)(a)]			
	Selling price (SP)	10,000,000		
	Cost (CP)	6,000,000		
	Tax value (TV) R6,000,000 less R6,000,000 x 5% x 10 years	3,000,000		
	(SP limited to CP) less TV = R6,000,000 – R3,000,000	3,000,000		1
	Capital gain or capital loss:			
	Proceeds		10,000,000	½
	Less recoupment		(3,000,000)	½
			7,000,000	
	Less base cost:			
	Expenditure	6,000,000		½
	Less allowances granted	(3,000,000)	(3,000,000)	½
	Capital gain/capital loss		4,000,000	
	Tutorial note: *As this is a voluntary replacement of a building, the capital gain may not be deferred.*			
	Replacement building:			
	The recoupment for the old building's allowances may be offset against the purchase price of the new building (in effect a deferral).			
	(R20,000,000 – R3,000,000) x 5%		(850,000)	1
(iii)	**Machine T:**			
	R&D capital allowance for the current year			
	R450,000 x 30% (year 2) – not apportioned		(135,000)	½
	Recoupment determination: [s.8(4)(a)]			
	Selling price (SP)	495,000		
	Cost (CP)	450,000		
	Tax value (TV) R450,000 less R450,000 x 80% (50% year 1 and current year allowance of 30%)	90,000		
	(SP limited to CP) less TV = R450,000 – R90,000	360,000		1
	This recoupment may be deferred [in terms of s.8(4)(e)].			
	Capital gain or capital loss:			
	Proceeds		495,000	½
	Less recoupment		(360,000)	½
			135,000	
	Less base cost:			
	Expenditure	450,000		½
	Less allowances granted	(360,000)	90,000	½
	Capital gain/capital loss		45,000	
	This capital gain may be deferred [in terms of para 66 – 8th Sch].			
	Portion to be recognised for aggregation – see below: R45,000 x 50%	22,500		½
	Replacement R&D machine:			
	R500,000 x 50% (year 1)		(250,000)	½
	Recognition of deferred recoupment: R360,000 x 50%		180,000	½

	R	R	*Marks*
(iv) The replacement of the pipeline is a replacement of 'a subsidiary part of the whole' [*African Products* case] and as a result constitutes a repair of the machinery as a whole.			½
The insurance receipt results in the repair deduction, to the extent of the payment received, being disallowed [s.23(c)].			½
Repair claimed [s.11(d)]: (R200,000 – R150,000)		(50,000)	½
Cosmetic repairs to the machines		(40,000)	½
New securing pins (represents an improvement to the machinery as a whole and is not a repair).			1
Improvement capital allowance [s.12C]			
New or unused 40% x R50,000		(20,000)	½
(v) As the royalty payment is made one month before the year end, relates to a period extending beyond the first six months of the following year of assessment, and exceeds R80,000, the payment must be apportioned according to the period to which it relates [s.23H]			1
Royalty payment of 1 March 2011: R4,000,000 x 11/12 (for the period 1 April 2011 to 29 February 2012)		(3,666,667)	½
Royalty payment of 1 March 2012: R4,250,000 x 1/12 (for the period 1 March 2012 to 30 April 2012)		(354,166)	½
(vi) While the legislation only permits a company deduction of 10% for contributions to pension and medical funds, the practice is extended to 20% of 'approved remuneration'.			½
Salaries and wages (excluding contributions to funds)		(24,000,000)	½
Actual company contributions	6,000,000		½
20% of R25 million is the limit =	5,000,000	(5,000,000)	½
Tutorial note: *If a student applies a limit of 10%, it will be accepted for marking purposes.*			
Total capital gains to be recognised (R4,000,000 + R22,500)	4,022,500		
Total capital losses	0		
Aggregate and net capital gain	4,022,500		
Inclusion at 50%		2,011,250	1
			20
			25

3 Big Entertainment Ltd

	R	R	
1. **Yacht**			
Proceeds R7,000,000 x 100/114		6,140,351	1
Less base cost:			
Expenditure incurred:			
R12,000,000 less deemed input (R12,000,000 x 14/114)	10,526,316		1
As the expenditure incurred is greater than the proceeds received, but does not exceed the market value on 1 October 2001, the base cost must be the lower of:			
(a) the market value on 1 October 2001; or			1
(b) the time-apportioned base cost.			1
Market value on 1 October 2001:	11,500,000		½
TABC:			
B = 10,526,316			½
P = 6,140,351			½
N = 1			½
T = 11			½
Y = B + ((P – B) x N/(T + N))	10,160,819		½
Choose TABC		(10,160,819)	½
Capital loss		(4,020,468)	

The capital loss calculated must be disregarded [in terms of paragraph 15 – 8th Schedule] and cannot be included in the aggregation of the capital gains and capital losses. 1

	R	R	*Marks*
2. **Vacant land**			
Proceeds R2,800,000 x 100/114		2,456,140	1
Tutorial note: *VAT still charged as the sale is a taxable supply of a VAT vendor.*			
Less base cost:			
Original expenditure	3,000,000		½
No addition of transfer duty as claimed as input VAT			½
Selling costs R160,000 x 100/114	140,351	(3,140,351)	½
Capital loss		(684,211)	
The capital loss may be aggregated with any other capital gains or capital losses.			½
No provision exists to prevent the aggregation of this capital gain and capital loss			½
3. **Disposal of partnership asset**			
As the asset has no tax value and is sold for more than it originally cost, the full cost is recovered.			
Cost (excluding VAT) R570,000 x 100/114 x 60% (partnership share)		300,000	1
Tutorial note: *Partnership assets are treated as individual disposals by the partners of their share in the asset.*			
Proceeds for capital gains R960,000 x 100/114 x 60%		505,263	1
Less recoupment (as above)		(300,000)	½
		205,263	
Less base cost:			
B = R570,000 x 100/114 x 60% less allowances (R300,000)	0		1
P = (as above)	205,263		½
N =	2		½
T =	13		½
Y = B + ((P – B) x N/(T + N)) =	27,368		½
Market value on 1 October 2001	870,000		½
Tutorial note: *The market value cannot be reduced by the allowances claimed on the asset.*			
20% of proceeds (R205,263) less post-valuation date expenditure (R0 here)	41,053		½
Choose market value (on 1 October 2001), however, as market value is greater than the proceeds, the valuation date value must be substituted by the proceeds		(205,263)	1
Capital gain/(Capital loss)		0	

Tutorial note: *The substitution is actually proceeds less the post-valuation date expenditure. As this is nil for this scenario, the substitution is the proceeds figure.*

There are no exclusions to prevent the aggregation. However, the result is nil and will have no impact. ½

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4 Rowan and Harrison

(a) (i) Normal tax

An annual tax return will have to be filed. The due date will be dependent on the dates declared by the Minister of Finance. Upon assessment, the second date on the assessment is the latest date by which any amount outstanding (as assessed) must be paid to prevent any further interest charges. 1 1

Provisional Tax

The company will have to file two compulsory provisional tax returns. The first will be due on 31 August in the relevant year of assessment and the second on the last day of February of the relevant year of assessment. To avoid interest on normal tax, the company may elect to make a voluntary third payment. The latest date for such third payment is the last day of September (after the year of assessment ended). 1 1

Employees tax

The company will have an obligation to withhold employees tax on the remuneration paid to all employees (including Rowan and Harrison as directors). Such employees tax will have to be filed monthly. 1

Annually, the company will also have to issue employees tax certificates to its employees and complete an annual declaration of employees tax, which is submitted to the South African Revenue Services. 1

Marks

Donations Tax

The donation made will result in a payment of donations tax and require the submission of the donations tax return. Donations tax must be paid within three months of the donation by the donor. Failure to pay within six months results in the donor and donee becoming jointly and severally liable for the donations tax. 1 2

Secondary Tax on Companies (STC)

On declaring dividends to the shareholders, the company will have to file a dividend declaration with SARS and settle the STC amount. The return and payment is due by the end of the month following the declaration of the dividend (e.g. if the dividend is declared in March, then the return must be filed and payment made by the end of April). 1

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(ii) Normal tax

An administrative penalty (dependent on taxable income) is levied per month for failure to render a tax return. Interest will also run on any amounts outstanding at the rates determined periodically by the Minister of Finance.

Provisional tax

Failure to submit the second return results in a penalty of 20% of the tax on taxable income (estimated by the Commissioner) net of any earlier provisional tax payments and employees tax credits. Late payment results also in a 10% penalty of the amount of the return.

Under-estimating the second provisional payment results in a penalty of 20% of the difference between the tax on the actual taxable income and the estimate.

Interest will also run on any amounts outstanding at the rates determined periodically by the Minister of Finance.

Employees tax

'The imposition of non-compliance penalties was extended to Employees' Tax in relation to transgressions, allowed in terms of paragraph 14(6) of the Fourth Schedule of the Income Tax Act No. 58 of 1962 (the Act). These transgressions include:

– Non-submission of an Employer Reconciliation Declaration (EMP501) by the due dates (interim and annual)
– Failure to submit Employee Income Tax Certificates [IRP5/IT3(a)] (i.e. missing IRP5/IT3(a)s)
– Submission of incorrect, incomplete or inaccurate data in relation to the IRP5/IT3(a)s, even where the EMP501 has been submitted on time.

The abovementioned non-compliance will be subject to a non-recurring percentage based penalty equal to 10% of:

– The amount of Employees' Tax that an employer fails to pay as and when required under the Act
– The total amount of Employees' Tax deducted or withheld, or that should have been deducted or withheld, by an employer from the remuneration of employees, where the employer fails to submit an IRP5/IT3(a) as and when required under the Act'

If the intention was to evade the employer or employees' obligations, the penalty increases to 200%.

Interest will also run on any amounts outstanding at the rates determined periodically by the Minister of Finance.

MAX 3

For any valid penalties.
A mark for the interest to run will only be awarded once.

(b) Where the total value of taxable supplies exceeds R1 million over a 12-month period, the person becomes liable to register for value added tax (VAT) at the end of the month in which the turnover exceeds R1 million. 1

Within 21 days from the month end in which the person becomes liable, an application must be made for registration as a VAT vendor. 1

2

15

			Marks
5	**Baby Group Ltd**		
(a)	The disposal of a business or separate division as a going concern is deemed to be a supply of goods made in the course or furtherance of an enterprise [s.8(7) of the VAT Act].		1
	The deemed supply of goods must be a taxable supply in the absence of it being an exempt supply. As the		1
	disposal of the going concern is not an exempt supply, it is a taxable supply of a vendor. As a result, a tax invoice		½
	must be issued. This is irrespective of the supply being at the standard or zero rates.		½
			3
(b)	VAT may be levied at the zero rate for the disposal of a going concern if the following conditions are met:		
	– The business must be a going concern before and after the sale;		½
	– To be considered a going concern the business must (a) be an income earning structure; and (b) all assets necessary to such income earning structure must be transferred to the purchaser;		1
	– The purchaser must be registered as a VAT vendor at the time of sale;		½
	– The sale agreement must be in writing and state that it is a sale at the zero rate.		1
			3
(c)	(i) Despite Teddy (Pty) Ltd and Tot Furn (Pty) Ltd being connected persons, the transactions take place, for VAT purposes, at the stated consideration. The recipient is entitled to a full input claim.		½
	Land and buildings – R3,500,000 x 14/114	429,825	½
	Motor vehicles – R300,000 x 14/114	36,842	½
	Trading stock – R1,140,000 x 14/114	140,000	½
	(ii) Tot Furn (Pty) Ltd will not be entitled to a full input claim in respect of the computer equipment as the acquisition relates to it making both exempt and taxable supplies. Therefore, the output VAT accounted for by Teddy (Pty) Ltd will be based on the higher of the consideration or the open market value.		½
	Computer equipment – R100,000 x 14/114	12,281	½
	(iii) As Baby Group Ltd, a connected person, is not a VAT vendor, it is not entitled to a full VAT input claim. As a result, the output VAT charged by Teddy (Pty) Ltd must be based on the higher of consideration or open market value.		½
	R700,000 x 14/114	85,965	½
			4
			10